



LITERATURE KEY FINDINGS

Attraction and Retention Bonuses and Rewards

Caveats to Retention Bonus Programs

The following should be considered when implementing a retention bonus program:⁵

- Companies should limit the number of recipients of retention bonuses in order to ensure that resources are allocated in meaningful amounts
- Retention bonuses are only a complement to other retention measures. For talent critical over the long term, companies should focus their efforts on the types of personalized retention efforts used for internal retention of key talent

Finding 1: Research reveals that companies utilize a combination of monetary and non-monetary short-term incentives to retain employees with critical knowledge or skills. Monetary incentives, in the form of retention bonuses and spot cash awards, may be tied to employee intended retention time and market conditions. These bonuses are offered on the basis of specific skills, merit, or task completion. Companies may also adopt non-cash programs for retention purposes, which include work-life benefits and career development.

Monetary Incentives

- **Adjust bonus amounts to time frame and market**—Research reveals that companies award retention bonuses to all levels of employees in percents of salary ranging from five to fifty percent. Typically, longer retention time frames require larger bonuses, and in a tight labor market, talent tends to leave for the most lucrative offer, necessitating an increase in bonus amount.^{1,2,3,4}
- **Utilize bonuses for the short-term only**—A *PricewaterhouseCoopers* study of 418 organizations indicates that 43% provide retention bonuses to key employees. While 70% of firms employing retention bonuses consider them successful for short-run employee retention, research suggests that retention bonuses prove ineffective as a long-term retention strategy. Past Council research reveals that companies experience an average turnover rate of 52% once retention agreements expire.^{6,7}
- **Determine length of contract prior to providing bonus**—Research demonstrates that contract lengths vary across firms and job functions. In many cases, companies require employees to remain with the firm for a pre-arranged time period (e.g., six months to three years) or until employees complete designated projects. Among firms offering cash, 74% pay the bonuses as a lump sum once the contract has been fulfilled.⁸
- **Provide skill-specific bonuses to enhance retention**—A recent Watson Wyatt study indicates that short-term incentives and bonuses prove particularly valuable to critical employees. In fact, 92% of employees reported that this form of compensation was either a “very valuable” or “moderately valuable” retention tool. Previously profiled companies offered critical skill employees the following benefits:⁹

Table 1: Short-Term Incentives for Critical Skill Employees*

	Company A	Company B	Company C	Company D
Retention Bonuses	X	X	X	X
Spot Cash Awards		X	X	
Project Milestone Awards	X	X		

*Profiled companies indicate that critical skill employees receive, in addition, short-term incentives similar to those of the larger workforce.

- **Provide merit-based bonuses**—Literature indicates that creating both organizational and individual performance targets proves a popular compensation vehicle for critical skill employees, as indicated from the case example below:¹⁰
- **Case example: National Semiconductor’s Key Employee Incentive Plan (KEIP)**—Employees who significantly impact National Semiconductor’s strategic goals are eligible to participate in KEIP. If employees qualify for this plan, their performance is measured on the achievement of specific strategic and management objectives as well as on corporate and business unit financial performance. Typically, employees who meet their KEIP objectives are being paid competitively. Those who exceed their objectives earn much more than competitive pay averages.

Finding 1 (Continued)

- **Tie bonuses to the completion of specific tasks**—Using retention bonuses to encourage employees to remain with a company for a limited period of time or until the completion of a project represents an effective short-term retention strategy. For example, one software company offered its top developers a two-week vacation to Tahiti upon their completion of an important project.¹¹

Non-Monetary Incentives

- **Focus on work-life balance initiatives**—Research reveals the importance of work-life balance initiatives as a means of promoting satisfaction and retention among critical skill employees. A 2002 study by the *Families and Work Institute* reports that higher degrees of flexibility in the workplace correlate with higher levels of job satisfaction and retention.¹²
- **Allow flexible work hours**—Council research indicates flexible work arrangements for critical skill employees increases job satisfaction. The following represent two types of flexible work arrangements:¹³
 - **Compressed work week**—Allow workers to work four days and receive three day weekends up to two weeks per month
 - **Work from home**—Encourage the establishment of a home office from which employees may work throughout the week
- **Encourage career development**—Research indicates that career development opportunities may prove to be a successful retention tool. The following represents possible short-term development incentive options:¹⁴
 - Conference attendance
 - Job rotation programs
 - Mentoring programs

Finding 2: Research reveals that strategies such as phased retirement and mentoring help companies retain skills and knowledge that may otherwise be lost through employee retirement.

Phased Retirement Retention Programs

- **Employ workers who still want to work**—Companies offer phased retirement to retain skilled workers for the following reasons:^{15,16}
 - One out of three older workers say they would continue working longer than otherwise planned if they were offered a phased retirement arrangement
 - Retirees who participate in a phasing program but left their employers did so because they perceived that phasing opportunities were limited
- **Take advantage of relationship with retirees**—Research reveals that the variables detailed below contribute to the success of phased retirement programs:¹⁷
 - Available health benefits linked to a post-retirement health program
 - Compatible pension and compensation systems
 - Forums for performance evaluation
 - Job flexibility
 - Rewards for managers able to retain “critical talent” retirees
 - Support from management
- **Fully utilize the experience of retiring employees**—Many companies implement a phased retirement program by leveraging formal rehire policies for retirees. Thus, retirees return to the company in a variety of different roles, including as consultants. Other roles into which companies rehire retirees are as follows:^{18,19}
 - Contractors
 - Full-time jobs after a certain period
 - Part-time or temporary jobs

Costs of Retirees Rehired as Consultants

While the cost of rehiring critical talent retirees as consultants varies from company to company, one company profiled in previous Council research indicates that it pays retirees rehired as consultants 1.25 times the current supervisory rate.²⁰

Finding 2 (Continued)

- **Save money by phasing out retirees slowly**—The following details the Aerospace Corporation's phased retirement program:²¹

Case Example: Three-tiered Phased Retirement Program

Purpose: To encourage critical retirement-age workers to stay with the company for an extended period of time.

Structure:

Phase
one

Phase
two

Phase
three

Extended leave of absence—Employees nearing retirement age may take a leave of absence of up to three months to explore their interests and career trajectories

Part-time work—Upon returning, employees may switch to any form of customized work arrangement, should the switch meet the specific department needs

Casual" or consultative re-hire—Employees who have formally retired may return in some capacity to their old jobs as "casual employees"

Results: The program saves the company more than \$500,000 from rehiring retirees rather than recruiting externally. More than half of employees participating in the program have returned to work full time.

- **Encourage retirees to continue to work by offering compensation**—Council research indicates that companies employ the following monetary incentives to retain critical retirees:²²
 - *Stock Options*—Stock options are an effective retention tool because employees cannot exercise them for a period of time, generally five to ten years
 - *Increased Compensation*—Companies award an increase in compensation on a case-by-case basis rather than according to a general benchmark
 - *Retention Bonuses*—Companies provide retention bonuses such as compensation on a case-by-case basis

Mentoring Retention Programs

- **Provide forums for knowledge sharing**—Mentoring programs provide a relatively inexpensive vehicle for organizations to share and retain knowledge. Facing significant skill gaps as a result of impending retirement, NASA employs mentoring programs, as detailed in the case example below.^{23, 24 25}

Case Example: Group Mentoring and "Communities of Communication" at NASA

Purpose:
 Group mentoring allows for the transfer of knowledge to more than one individual. NASA developed several such programs as part of its knowledge sharing initiative. These programs allow agency employees and experienced individuals to share knowledge as described below:

Structure:

- **Forum of Master Project Managers**—At semi-annual off-site forums, veterans and highly successful project managers share stories about their experiences on high-profile NASA projects.
- **Transfer Wisdom Workshops**—Group mentoring is accomplished through one-day workshops held at individual agency centers and are based on small group discussions of case studies, where the participants analyze the applicability of the challenges highlighted in the case studies to their own centers.

Individual Mentoring Programs at Profiled Government Agency

HR at a government agency sets up a mentoring relationship prior to the planned departure of a retiree to capture his/her knowledge before leaving the agency. Three to four trainees work with the retiree prior to his/her departure to learn the job, tactics, and cultural information that one cannot learn from a document or other learning initiative.²⁶

Finding 2 (Continued)

- **Guarantee the transfer of knowledge**—Similar to the public sector initiatives mentioned above, Lockheed Martin recognized that it needed to preserve the knowledge of its aging workforce. As such, the company created a mandatory mentoring program for its top 2,000 executives, half of whom must be women or minorities.²⁶

Case Example: Mandatory Executive Mentoring Program at Lockheed Martin

Purpose:

With roughly one million employees in the aerospace industry downsized over the last 10 years and baby boomers nearing retirement, Lockheed Martin realized it needed a method to transfer job knowledge to high potentials in the company.

Structure:

Lockheed Martin's mentoring steering committee (which consists of representatives from each business unit) received approval from the Chairman and COO to require mentoring for the top 2,000 executives in the company. The program consists of the following elements:

- Each business unit receives information on who is eligible for pairing through succession planning
- Local HR in the business units provides general information on mentoring to pairs; the process is left largely open to accommodate personal match preferences

Result:

Lockheed Martin conducted an anonymous survey at the one-year mark of the mentoring program and received a 78% satisfaction rate, with over 50% of surveyed participants responding.

**Compensation's Impact
 On Intent to Stay**

According to an October 2002 survey conducted by Watson Wyatt Worldwide on strategic rewards, top performing employees indicated the following regarding their reasons for leaving a company (in rank order):²⁸

- *Dissatisfaction with pay*
- *Dissatisfaction with management*
- *Lack of promotion opportunities*

The same top employees place the highest value on the following monetary rewards:

- *Annual bonuses*
- *Project incentives*
- *Stock grants*

However, the survey reveals that in the event that their companies were facing financial difficulties, 47% of top performing employees would prefer to give up stock-based rewards than cuts in benefits, salaries, or bonuses.

Finding 3: Employee engagement, in the form of rational and emotional commitment, drives employee intent to stay. Intent to stay is primarily driven by the quality of direct manager and the offerings of the compensation plan.

- **Secure employees' rational commitment**—Rationally committed employees believe they can effectively fulfill financial, developmental, and career ambitions through their current employer. Research reveals that a strong rational commitment to the organization is the strongest driver of intent to stay, leading to a 50% improvement in retention. Commitment to the team is the second most important driver of intent to stay, leading to a 38.8% increase in retention.²⁷
- **Enhance employees' emotional commitment after rational commitment**—Emotional commitment—employees' deriving pride, inspiration, and enjoyment from their job and organization—can provide an additional 36% increase in intent to stay.²⁹
- **Develop high-quality managers**—Managers are the primary drivers of employee commitment to an organization. Managers may do this by valuing diversity, exhibiting qualities of honesty, and connecting the employee to the organization.³⁰
- **Ensure compensation is adequate**—Council research indicates that increasing satisfaction with total compensation provides only a 9% increase in discretionary effort, but it can provide up to a 21% increase in employees' intent to stay. In addition, Watson Wyatt reports that 72% of critical employees view stock options and other long-term incentives as "very valuable" or "moderately valuable." Additional long term incentives may include the following:^{31,32,33,34,35,36}
 - Provision of annual bonuses
 - Increases of salary
 - Increases of responsibilities/authority
 - Possibility of stock options—A 2001 survey reveals an 11% rise in the proportion of companies granting stock to employees for hiring and retention

Professional Services Note

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